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C O N F I D E N T I A L SECTION 01 OF 02 SAO PAULO 001372

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SUBJECT: ELDER STATESMAN DELFIM NETTO DISCUSSES PRESIDENT
LULA AND ELECTION OUTLOOK

Classified By: CONSUL GENERAL CHRISTOPHER MCMULLEN FOR REASONS 1.4 (B,D

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1. (C) Summary: PMDB Congressman and elder statesman Antonio Delfim Netto told CG that while President Lula remains personally popular, he needs to start courting the PMDB and the smaller &left light8 parties if he hopes to get re-elected in next October,s elections. Netto said the PSDB/PFL electoral alliance poses a formidable front that could defeat Lula in a likely second round, particularly if the PSDB chooses Sao Paulo Governor Geraldo Alckmin as its candidate. In contrast to the increasingly united PSDB/PFL alliance, Netto noted that Lula has not taken any steps to forge an alliance with the large, though divided, PMDB. (He downplayed the possibility of the PMDB selecting a viable presidential candidate from its own ranks.) Netto also criticized the PT,s political immaturity, pointing to the recent PT National Directorate,s public manifesto challenging Lula,s economic policy. Netto said that while Lula was conservative by nature, he was unlikely to change his top foreign policy advisers, whom he characterized as instinctively anti-American. He also ruled out any dramatic foreign policy changes in a second-term Lula government, averring that the Foreign Ministry would continue to reflect the PT,s antipathy towards an FTAA and a more strategic relationship with the United States. End Summary.

2. (C) CG and Poloff met December 13 with Federal Deputy Antonio Delfim Netto to discuss Brazil,s political and economic situation and the upcoming elections. Netto, who served as Minister of Finance and Minister of Planning in the 1970s and 80s, enjoys a reputation as balanced and credible elder statesman. While his party forms part of the governing coalition, Netto was surprisingly candid and critical of the ruling PT and some key aspects of Lula,s policies.

3. (C) Netto, who in recent months joined the Brazilian Democratic Movement Party (PMDB) after years as a member of the Progressivist Party (PP), characterized the PMDB as &two-headed.8 There is a significant pro-government faction, as well as an anti-government faction which is highly critical of the Lula government but which also depends on the government for favors (The independent-minded Netto does not fit neatly into either camp). In the face of these internal divisions, the PMDB must decide whether to select its own presidential candidate or, if Lula appears a likely winner, cut a deal to support Lula.

4. (C) Netto opined that after all the scandals it has suffered, Lula,s Workers, Party (Partido dos Trabalhadores) PT) will do well to elect 40 deputies in the October 2006 election, he opined (it currently has 90). He said support from the PMDB would be critical to Lula,s reelection bid because the PMDB has many strong gubernatorial candidates who could provide crucial coattails. Netto faulted Lula for not taking any early steps to forge a strong PT-PMDB alliance. As a result, some PMDB leaders are pressing for the party to run its own presidential candidate.

5. (C) Netto dismissed the likelihood of the PMDB fielding a viable presidential candidate, noting that Supreme Federal Tribunal (STF)President Nelson Jobim is unlikely to garner sufficient party support. Similarly, Rio Grande do Sul Governor Germano Rigotto is &extraordinary8 but lacks the national exposure needed to make a successful run. Netto characterized former Rio de Janeiro Governor Anthony Garotinho as a dangerous populist, whose main support comes from evangelical Christians.

6. (C) Netto noted that the PSDB and PFL appear increasingly united and thus pose a credible challenge for Lula. Sao Paulo Mayor Jose Serra (PSDB) is a tough and seasoned candidate who has national recognition. Netto, however, considers Sao Paulo state governor Geraldo Alckmin (also PSDB) an even greater threat to Lula,s reelection bid. Alckmin is a respected and able administrator who would be a very strong candidate, although Netto acknowledged that Serra would be tough to beat for the PSDB nomination.

7. (C) Netto offered candid opinions on Lula and the PT. The party,s National Directorate,s recent manifesto criticizing

the government,s economic policy exposed the party,s political immaturity. The Directorate has always been more of an academic center or discussion group, creating many internal fissures and tensions. Lula won the 2002 election based on his personal popularity and his ability to attract strong support from outside the PT. He,s not a leftist at heart, but rather a culturally conservative Catholic labor leader with good political instincts. In contrast to Lula,s political pragmatism, others in the PT and government are &revolutionaries who want to change the world.8

18. (C) According to Netto, Lula is dealing with a difficult economic situation that he inherited from former President Fernando Henrique Cardoso: a high tax burden, a fiscal deficit, and a high debt-to-GDP ratio. The Central Bank has exacerbated the situation by keeping interest rates too high, inhibiting growth. These problems are hard to correct in the short term, particularly with the continuing investigations surrounding the political scandals, which are a complicating Lula,s situation. Despite losing some support inside and outside of his party, Lula will benefit from the &Bolsa Familia8 welfare program, which should garner crucial blocs of votes in the impoverished north and northeastern parts of Brazil. Also, Lula is a charismatic speaker who is able to capture the popular vote without being a populist.

19. (C) Commenting on the Lula government,s foreign policy, Netto sharply criticized the Foreign Ministry (Itamaraty) for ideologically driven policies that do not reflect the country,s national interests. He attributed these misdirected policies to leftist, anti-American ideologues in senior positions, such as MFA Secretary General Samuel Pinheiro Guimarães and presidential adviser Marco Aurelio Garcia. Netto said FTAA is absolutely essential to strengthening economic ties, stimulating investment and bringing in partnerships and joint ventures, but believes there will not be any progress on FTAA as long as Guimarees and Garcia are directing Lula,s foreign policies. According to Netto, Garcia and Guimarães wield tremendous influence over Lula even though he doesn,t share their political outlook or temperament. Netto averred that both will likely continue in their positions should Lula win a second term, adding that Brazil,s foreign policy is unlikely to change course with respect to the United States. (He described the bilateral relationship as &friendly but superficial.8) Despite these obstacles at the governmental level, Netto said much can be done in terms of outreach to strengthen understanding between the U.S. and Brazil, which share many common interests.

110. (C) Comment: Netto is a prominent economist by training who has been in public life for over 40 years. He held a number of senior governmental positions under the military dictatorship and has been a Federal Deputy since 1987. He is a well-informed, articulate and candid observer whose views are not infused with strong political partisanship. However, he only recently joined the PMDB and does not wield strong influence in the party. Thus, his (implied) preference for analliance between the PMDB and Lula may not reflect party leadership thinking. Other PMDB representatives we have spoken to recently) for example, Sao Paulo state party chairman Orestes Quercia) strongly favor having the PMDB run its own presidential candidate, though preferably not Garotinho. Given the deep divisions in the PMDB at the national level, it would be difficult for the party to field a viable presidential candidate. For this reason, Netto believes it would be more advantageous politically for the PMDB to strike a strategic deal with Lula and the PT, even if this means accepting some policies that do not sit well with the PMDB rank and file. End comment.

111. (U) This message was cleared/coordinated with Embassy Brasilia.
MCMULLEN